

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts has completed the Harlan County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$590,076 from the prior year, resulting in excess fees of \$958,340 as of December 31, 2003. Revenues increased by \$627,101 from the prior year and expenditures increased by \$35,317. The increase in revenue is largely attributed to the Sheriff receiving \$451,918 in Federal Grants and \$162,387 more in tax commissions during calendar year 2003 than was received during calendar year 2002.

Report Comments:

- The Sheriff Should Remit Excess Fees To The Fiscal Court Monthly
- The Sheriff Should Not Make Large Expenditures From The Fee Account

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
The Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Harlan County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report dated September 13, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Joseph A. Grieshop, County Judge/Executive
The Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Remit Excess Fees To The Fiscal Court Monthly
- The Sheriff Should Not Make Large Expenditures From The Fee Account

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Harlan County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 13, 2004

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES -
REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Grants		\$	467,196
State - Kentucky Law Enforcement Foundation Program Fund			5,000
State Fees For Services:			
Finance and Administration Cabinet	\$	57,489	
Cabinet For Human Resources		<u>3,140</u>	60,629
Circuit Court Clerk:			
Sheriff Security Service			9,112
Fiscal Court			72,861
County Clerk - Delinquent Taxes			6,362
Commission On Taxes Collected			298,079
Fees Collected For Services:			
Auto Inspections	\$	10,932	
Accident and Police Reports		13	
Serving Papers		45,710	
Carrying Concealed Deadly Weapon Permits		8,295	
Conveying Prisoners		<u>6,826</u>	71,776
Interest			9,222
Other:			
Insurance	\$	1,630	
Fuel Refund		11,861	
Refund on Bank Shares		5,063	
Sheriff's Cost and Advertising		7,179	
Sheriff's Add-On Fees		48,572	
Miscellaneous		<u>1,370</u>	<u>75,675</u>
Total Revenues			<u>\$ 1,075,912</u>

The accompanying notes are an integral part of the financial statement.

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Contracted Services-

Vehicle Maintenance and Repairs	\$ 1,880	
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Supplies and Materials:

Office Supplies and Materials	4,231	
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Other Charges:

Conventions and Travel	175	
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Postage	457	
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Carrying Concealed Deadly Weapon Permits	6,255	
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Bond	411	
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Web Service	167	
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Bank Charges	259	
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Neighborhood Watch	251	14,086
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Capital Outlay:

Vehicles		30,625
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Total Expenditures		\$ 44,711
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Net Receipts		\$ 1,031,201
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Less: Sheriff's Salary		72,861
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Excess Fees		\$ 958,340
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Payment to Harlan County Treasurer during Calendar Year 2003	\$ 584,498	
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Payment to Harlan County Treasurer - September 13, 2004	373,842	958,340
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Balance Due Fiscal Court at Completion of Audit		\$ 0
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The accompanying notes are an integral part of the financial statement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Fee Pooling

The Harlan County Fiscal Court approved a fee pooling system for the Harlan County Sheriff. Under the fee pooling system, revenues net of direct expenses of the County Sheriff's Office are paid to the Harlan County Treasurer in the subsequent month. Therefore, the County pays almost all of the expenses of the Harlan County Sheriff's Office.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a cost-sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 4. Drug Account

The Sheriff maintained a drug account for calendar year 2003. The beginning cash balance was \$70,529. Receipts during the year were \$92,450, including \$1,039 in interest income. Disbursements during the year totaled \$66,783, resulting in an ending cash balance of \$96,196 at December 31, 2003, which is not available as excess fees.

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COMMENTS AND RECOMMENDATIONS

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Remit Excess Fees To The Fiscal Court Monthly

The Harlan County Fiscal Court approved a fee pooling system for the Harlan County Sheriff. Under the fee pooling system, revenues net of direct expenses of the County Sheriff's Office are paid to the Harlan County Treasurer in the subsequent month. However, the Sheriff did not remit all receipts less allowable expenditures to the Fiscal Court in the following month. During calendar year 2003, the Sheriff held back such items as commissions, interest, and other amounts in the amount of \$373,842. This deprived the Fiscal Court of the funds which would have been available for its use in running the County. According to KRS 134.310 the Sheriff shall file annually with his final settlement a complete statement of all funds received by his office for official services, and a complete statement of all expenditures of his office. At the time he files these statements, the Sheriff shall pay to the fiscal court any fees, commissions, and other income of his office. We recommend the Sheriff remit to the Fiscal Court fees, commissions and other income of his office less allowable direct expenditures in the subsequent month. We also recommend the Sheriff pay to the Fiscal Court any fees, commissions, and other income of his office remaining at the time he files his final settlement with the Fiscal Court to be in compliance with KRS 134.310.

Sheriff's Response:

We will write check today.

2. The Sheriff Should Not Make Large Expenditures From The Fee Account

The Sheriff purchased vehicles and made other expenditures from his official fee account. The Sheriff participates in fee pooling with the Harlan County Fiscal Court. Therefore, he should not make large purchases from his fee account. We recommend the Sheriff submit invoices to the Fiscal Court for payment by the Fiscal Court.

Sheriff's Response:

We will get Fiscal Court approval.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
The Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated September 13, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Remit Excess Fees To The Fiscal Court Monthly
- The Sheriff Should Not Make Large Expenditures From The Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 13, 2004

